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Memorandum

TO: BATA Oversight Committee | DATE: February 2, 2011

FR: Deputy Executive Director | W. I. 1251, 1256

RE: Approval of Resolution No. 97 – Authorizing 2011 Financing Plan

Staff recommends approval of Resolution No. 97 authorizing the issuance of up to $1 billion in toll bridge revenue bonds to fund existing BATA projects.

Background

Resolution No. 97 updates the authorization in Resolution No. 92, approved by the Authority in April 2010. Resolution No. 92 authorized the issuance of up to $4.0 million in new toll bridge revenue bonds with the goal of completing the balance of BATA's project and program obligation. While the market and interest rates were favorable, BATA achieved all of the 2010 financing plan goals, except for completing the project financings. The accomplishments included:

- Issued $2.4 billion in subordinate lien taxable and tax-exempt bonds at a blended rate of 4.55% (model estimate was 6.25%).
- Maintained "AA" senior lien status and received an "outlook" upgrade from Fitch.
- Transferred $505 million in MTC transit transfers, $5.0 million above the target funding level.
- Fully funded the balance of $580 million in MTC/1171 transit projects.
- Renewed $1.5 billion in credit support for variable rate bond portfolio. All $1.5 billion was renewed for 3-4 years at favorable terms.

With virtually all of the toll commitments to MTC satisfied, all that remains is to complete financing the existing BATA projects and manage the debt portfolio.

2011 Financing Plan

Resolution No. 97 requests authorization to issue up to $1 billion in new toll revenue bonds. Given the lower overall interest rates achieved in 2009 and 2010 (a blended 4.38%), and the lower projected costs of Dumbarton and Antioch, we believe we will only have to finance $1 billion to complete existing BATA project commitments rather than utilize the remaining $1.6 billion from the 2010 authorization.

Staff request flexibility in the mode of bonds. Even without a renewed Build America Bond program, we believe the 2011 market may still offer attractive values for both fixed and variable rate taxable and tax-exempt debt.

Except for principal size, the parameters for authorizing the debt will be similar to those approved in the 2010 financing plan. The not-to-exceed parameters are:

Rates	
Fixed tax-exempt	6.75%
Taxable fixed	8.80%
Variable	12.0%
Bank-held	15.0%
Term	Up to 40 years
Cost of Issuance	1% of principal for tax-exempt bonds and 2% of principal for taxable bonds
Principal	$1 billion

Transactions cannot be completed outside the listed parameters absent further authorization from Authority. Any unutilized authority will expire at the end of 2011.

There is another area to evaluate in 2011 and that involves the BATA swap portfolio. The original financing plan was to keep interest rates down by building a predominantly "synthetic" fixed rate debt portfolio. The "synthetic" fixed rate is achieved by BATA issuing variable rate bonds and contracting to exchange a fixed rate payment for a variable rate payment. The variable payment is used by BATA to offset the variable rate bond payments, while the fixed rate payment made by BATA is at rates below traditional fixed rates.

The strategy worked until the crisis of 2008 when nearly $2 billion in credit support for the Variable Rate Demand Obligations (VRDO) portfolio was lost. BATA has already terminated $1.8 billion of the $3.5 billion swap portfolio. There is, however, $250 million in swap contracts remaining from the fallout of 2008 to be dealt with.

We have several options to deal with this residual swap contracts. These options include:

- Terminate the swaps. Given current market conditions and the nature of the termination rights to be exercised, the termination cost would be approximately $50 million.

- Issue variable rate bonds. New bonds would re-activate the swap to its original purpose and avoid a termination payment.

- Put a new reverse swap contract over the existing contract to "neutralize" the transaction. The reverse swap put on in 2009 has an optional termination in April, but could be renewed.

While terminating the swap and issuing variable rate debt is expected to lower "overall" costs (1% vs. 4.1%), it would take 20 months to amortize the anticipated termination cost. The simplest option is to put new variable rate debt under the swap contracts and restore their original purpose, low (4.1%) synthetic fixed debt rate.

Resolution No. 97 also restricts and updates other authorizations in Resolutions Nos. 85, 92 and 95.

Staff requests approval of Resolution No. 97 for consideration by the Authority.

Andrew B. Fremier

AF/BM/cj

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